

**REPORT OF THE AUDIT OF THE
JOHNSON COUNTY
SHERIFF'S SETTLEMENT - 2005 TAXES**

May 24, 2006



**CRIT LUALLEN
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EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
JOHNSON COUNTY
SHERIFF'S SETTLEMENT - 2005 TAXES**

May 24, 2006

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2005 Taxes for Johnson County Sheriff as of May 24, 2006. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$6,062,893 for the districts for 2005 taxes, retaining commissions of \$245,827 to operate the Sheriff's office. The Sheriff distributed taxes of \$5,816,957 to the districts for 2005 Taxes. Taxes of \$112 are due to the districts from the Sheriff and refunds of \$1,202 are due to the Sheriff from the taxing districts.

Report Comments:

- The Sheriff's Office Lacks Adequate Segregation Of Duties
- The Sheriff Should Consult With The Revenue Department For Advice On Commissions For The Property Valuation Administrator
- The Sheriff Should Report And Pay Taxes Timely

Deposits:

The Sheriff's deposits as of May 24, 2006 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$65,908

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
John R. Farris, Secretary
Finance and Administration Cabinet
Honorable R. T. Daniel, Johnson County Judge/Executive
Honorable William D. Witten, Johnson County Sheriff
Members of the Johnson County Fiscal Court

Independent Auditor's Report

We have audited the Johnson County Sheriff's Settlement - 2005 Taxes as of May 24, 2006. This tax settlement is the responsibility of the Johnson County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Johnson County Sheriff's taxes charged, credited, and paid as of May 24, 2006, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated September 1, 2006, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
John R. Farris, Secretary
Finance and Administration Cabinet
Honorable R. T. Daniel, Johnson County Judge/Executive
Honorable William D. Witten, Johnson County Sheriff
Members of the Johnson County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff's Office Lacks Adequate Segregation Of Duties
- The Sheriff Should Consult With The Revenue Department For Advice On Commissions For The Property Valuation Administrator
- The Sheriff Should Report And Pay Taxes Timely

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
September 1, 2006

JOHNSON COUNTY
WILLIAM D. WITTEN, SHERIFF
SHERIFF'S SETTLEMENT - 2005 TAXES

May 24, 2006

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 548,005	\$ 837,636	\$ 2,814,488	\$ 725,138
Tangible Personal Property	68,595	102,177	430,075	185,301
Intangible Personal Property				108,149
Fire Protection	2,593			
Increases Through Exonerations				1,688
Franchise Taxes:				
Billed	79,606	113,194	397,655	
Additional Billings	746	1,218	3,793	1,051
Oil and Gas Property Taxes	16,777	21,488	69,649	22,200
Penalties	5,064	8,147	24,504	6,828
Adjusted to Sheriff's Receipt	<u>(83)</u>	<u>14</u>	<u>11</u>	<u>13</u>
Gross Chargeable to Sheriff	<u>\$ 721,303</u>	<u>\$ 1,083,874</u>	<u>\$ 3,740,175</u>	<u>\$ 1,050,368</u>
<u>Credits</u>				
Exonerations	\$ 8,559	\$ 14,069	\$ 38,108	\$ 8,908
Discounts	8,563	12,590	45,639	14,505
Delinquents:				
Real Estate	35,081	61,216	172,527	46,420
Tangible Personal Property	537	793	2,856	1,828
Intangible Personal Property				1,972
Franchise Taxes:				
Uncollected	1,201	1,626	5,025	
Unbilled	<u>6,526</u>	<u>9,452</u>	<u>34,826</u>	
Total Credits	<u>\$ 60,467</u>	<u>\$ 99,746</u>	<u>\$ 298,981</u>	<u>\$ 73,633</u>
Taxes Collected	\$ 660,836	\$ 984,128	\$ 3,441,194	\$ 976,735
Less: Commissions *	<u>28,373</u>	<u>38,007</u>	<u>137,648</u>	<u>41,799</u>
Taxes Due	\$ 632,463	\$ 946,121	\$ 3,303,546	\$ 934,936
Taxes Paid	632,185	945,877	3,304,432	934,463
Less: Refunds (Current and Prior Year)	<u>309</u>	<u>453</u>		<u>437</u>
Due Districts or (Refunds				
Due Sheriff) as of		***	**	
Completion of Fieldwork	<u>\$ (31)</u>	<u>\$ (209)</u>	<u>\$ (886)</u>	<u>\$ 36</u>

*, **, and *** See Next Page

The accompanying notes are an integral part of this financial statement.

JOHNSON COUNTY
 WILLIAM D. WITTEN, SHERIFF
 SHERIFF'S SETTLEMENT - 2005 TAXES
 May 24, 2006
 (Continued)

* Commissions:

10% on	\$ 10,000
4.25% on	2,494,194
4% on	3,441,194
1% on	117,505

** School Taxing Districts:

Common	\$ (683)
Graded	<u>(203)</u>

Refund Due Sheriff	<u><u>\$ (886)</u></u>
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*** Special Taxing Districts:

Library District	\$ (168)
Health District	(74)
Extension District	(43)
Soil Conservation District	17
County Fire & Rescue District	26
WR Castle District	10
Williamsport District	<u>23</u>

Due Districts or (Refunds

Due Sheriff)	<u><u>\$ (209)</u></u>
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JOHNSON COUNTY
NOTES TO FINANCIAL STATEMENT

May 24, 2006

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue, which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

JOHNSON COUNTY
NOTES TO FINANCIAL STATEMENT
May 24, 2006
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 41.240(4). On May 24, 2006, \$65,908 of the Sheriff's bank balance was exposed to custodial credit risk as follows:

- Uninsured and Unsecured \$65,908

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2005. Property taxes were billed to finance governmental services for the year ended June 30, 2006. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 4, 2005 through May 24, 2006.

Note 4. Interest Income

The Johnson County Sheriff earned \$21,684 as interest income on 2005 taxes. The Sheriff distributed the appropriate amount to the school districts as required by statute, and the remainder will be used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The Johnson County Sheriff collected \$34,544 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Johnson County Sheriff collected \$774 of advertising costs and \$3,250 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees will be used to operate the Sheriff's office.

Note 7. Unrefundable Duplicate Payments And Unexplained Receipts Should Be Escrowed

The Sheriff should deposit any unrefundable duplicate payments and unexplained receipts in an interest-bearing account. According to KRS 393.110, the Sheriff should properly report annually to the Treasury Department any unclaimed moneys. After three years, if the funds have not been claimed, the funds should be submitted to the Kentucky State Treasurer. For the 2005 taxes, the Sheriff had \$1,457 in unrefundable duplicate payments and unexplained receipts. Therefore, the Sheriff should send a written report to the Treasury Department.

COMMENTS AND RECOMNEDATIONS

JOHNSON COUNTY
WILLIAM D. WITTEN, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS

As of May 24, 2006

INTERNAL CONTROL - REPORTABLE CONDITION AND MATERIAL WEAKNESS:

The Sheriff's Office Lacks Adequate Segregation Of Duties

The internal control structure lacks an adequate segregation of duties. There is a limited staff size, which prevents adequate division of responsibilities. The Sheriff has statutory authority to assume the role of custodian of monetary assets, as well as recorder of transactions and preparer of financial statements. However, having one person solely responsible for these duties compromises the internal control structure of the sheriff's office. Having only one individual who is responsible for all duties increases the risk that misstatements or errors may occur and not be detected in a timely manner. The Sheriff should consider implementing the following controls to help offset the lack of adequate segregation of duties:

- Reconciliation of reports to source documents and receipts and disbursements ledgers by the Sheriff
- All checks to be signed by two people, with one being the Sheriff.
- Sheriff should mail checks for disbursements.
- Sheriff should prepare bank reconciliation.

Sheriff's Response: None.

STATE LAWS AND REGULATIONS:

The Sheriff Should Consult With The Revenue Department For Advice On Commissions For The Property Valuation Administrator

In accordance with KRS 75.450(7), the Johnson County Fiscal Court has adopted Ordinance No. 04-058 which establishes standard membership or subscriber fees for volunteer fire departments within Johnson County and provides that the membership or subscriber fees be placed on property tax bills yearly beginning with the 2004 property tax bills. The county ordinance also provides that the Sheriff and Property Valuation Administrator each collect a one percent (1%) commission on membership or subscriber fees collected by the Sheriff. The volunteer fire departments' fees were added to the 2004 property tax bills and were collected by the Sheriff as directed by the county ordinance. Further, the Sheriff collected his 1% commission and paid a 1% commission to the Property Valuation Administrator. The Sheriff, for the 2005 tax collections, collected his 1% commission and the 1% commission for the Property Valuation Administrator. However, none of the commissions collected for the Property Valuation Administrator were disbursed. KRS 75.040(4) allows the Sheriff to collect a fee (commission) of 1% on the amount of volunteer fire department membership or subscriber fees collected by the Sheriff. KRS 75.040 does not address a commission payment to the Property Valuation Administrator. Auditors could find no statute authorizing a Property Valuation Administrator to receive a commission on taxes collected by the Sheriff. Therefore, it appears that County Ordinance No. 04-058 does not carry legal authority to provide for a 1% commission payment to the Property Valuation Administrator. We recommend the Sheriff consult with the Kentucky Revenue Department for advice on future collections of commissions for the Property Valuation Administrator.

JOHNSON COUNTY
WILLIAM D. WITTEN, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS
As of May 24, 2006
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

The Sheriff Should Consult With The Revenue Department For Advice On Commissions For The Property Valuation Administrator (Continued)

Sheriff's Response: We agree with KRS 75.450(7) that requires the Sheriff to collect a 1% commission. We have decided to accept the advice of the Kentucky Revenue Cabinet to discontinue the 1% commission for the PVA in future tax collections.

The Sheriff Should Report And Pay Taxes Timely

KRS 134.300 requires the Sheriff to make a report and pay taxes due the districts by the 10th day of the month following the month of tax collections. For all months except the final month of tax collections, the Sheriff did report and pay taxes in a timely manner. The final month of tax collections was May 2006. The Sheriff should have prepared monthly tax reports and made payments to districts by June 10, 2005. The Sheriff paid state taxes on June 6. However, final payment was not made to the remaining taxing districts until July 2006, when the Sheriff completed his final settlement. We recommend the Sheriff report and pay taxes by the 10th day of the following month for any month in which taxes are collected.

Sheriff's Response: We will comply.

PRIOR YEAR:

- Lacks Adequate Segregation Of Duties
- The Sheriff Should Consult With The Revenue Department For Advice On Commissions Paid To The Property Valuation Administrator

These were not corrected and have been repeated in the current audit.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable R. T. Daniel, Johnson County Judge/Executive
Honorable William D. Witten, Johnson County Sheriff
Members of the Johnson County Fiscal Court

**Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the Johnson County Sheriff's Settlement - 2005 Taxes as of May 24, 2006, and have issued our report thereon dated September 1, 2006. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Johnson County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable conditions is described in the accompanying comments and recommendations.

- The Sheriff's Office Lacks Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable conditions described above to be material weaknesses.



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Johnson County Sheriff's Settlement - 2005 Taxes as of May 24, 2006 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Sheriff Should Consult With The Revenue Department For Advice On Commissions Paid To The Property Valuation Administrator
- The Sheriff Should Report And Pay Taxes Timely

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a stylized, flowing script.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
September 1, 2006

